



Acceptability Process Committee

July 15, 2005

10:00 a.m. to 12:00 p.m.

Agenda

- I. Welcome, Introductions, & Announcements
- II. Commission & Committee Meeting Dates
- III. 2005 Legislation Impacting the Florida Commission on Hurricane Loss Projection Methodology
- IV. Review of s. 627.0628, F.S. Creating the Commission
- V. Overview of the Content of the Report of Activities
- VI. Review of the Acceptability Process
- VII. Discussion and Proposals for Changes
- VIII. Other Ideas
- IX. Conclusions

I. Welcome, Introductions, & Announcements

- Committee Members:
 - Jack Nicholson, Chair
 - Randy Dumm
 - Steve Burgess
 - Howard Eagelfeld
- Conducting Committee Meetings
 - The public is encouraged to participate
 - The idea is to reach a consensus on changes

II. Commission & Committee Meeting Dates

- July 15, 2005 – Acceptability Process Committee (Preliminary)
- July 26, 27, & 28, 2005 – All Committee Meetings
- August 9 & 10, 2005 – Extra Meeting Dates to finish up if needed
- September 14 & 15, 2005 – Full Commission Meeting

III. 2005 Legislation Impacting the Florida Commission on Hurricane Loss Projection Methodology

- **CS for SB 1486**
- **HB 1939**

2005 Legislative Changes

- **CS for SB 1486** – changes to s. 627.0628(3)(c)
 - Adds wording: “only if the office and the consumer advocate appointed pursuant to s. 627.0613 have access to all of the assumptions and factors that were used in developing the actuarial methods, principles, standards, models, or output ranges, and are not precluded from disclosing such information in a rate proceeding.”
 - CONCLUSION: Has no impact on the work of the Commission.

2005 Legislative Changes

- **HB 1939 (Section 3)** – changes to s. 627.0628(3)(e)1., 2. & 3.

HB 1939

627.0628 Florida Commission on Hurricane Loss

Projection Methodology; public records exemption;
public meetings exemption. - -

- (3) (e)1. A trade secret, as defined in s. 812.081, that is used in designing and constructing a hurricane loss model and that is provided pursuant to this section, by a private company, to the [commission](#), office, or consumer advocate appointed pursuant to s. 627.0613, is confidential and exempt from s. 119.07(1) and s. 24(a), Art. I of the State Constitution.

2. That portion of a meeting of the [commission](#) or of a rate proceeding on an insurer's rate filing at which a trade secret made confidential and exempt by this paragraph is discussed is exempt from s. 286.011 and s. 24(b), Art. I of the State Constitution.

3. This paragraph is subject to the Open Government Sunset Review Act of 1995 in accordance with s. 119.15, and shall stand repealed on October 2, 2010, unless reviewed and saved from repeal through reenactment by the Legislature.

CONCLUSION: The new statutory changes as a result of HB 1939 can impact the Commission's review process. The Commission should review its processes and determine what changes are needed.

Implications

- Trade Secrets are confidential and exempt from the public records law s. 119.07(1), F.S.
- Portion of a meeting where trade secrets are discussed is exempt from being a meeting open to the public.

Potential Impact on the Commission

- Documents containing trade secrets can be provided to the Commission without the Commission being required to make these documents available to the public.
- Portion of a meeting where trade secrets are discussed can be closed to the public.

IV. Review of s. 627.0628, F.S. Creating the Commission

s. 627.0628, F.S.

- (1)(a) – Public policy of the state to encourage the use of the most sophisticated actuarial methods to assure that consumers are charged lawful rates for residential property insurance coverage.
- (1)(b) The need for expert evaluation to resolve conflicts among actuarial professionals and to provide immediate and continuing improvement in the sophistication of actuarial methods.
- (1)(c) Intent to create the Commission as a panel of experts to provide the most actuarially sophisticated guidelines and standards.
- (1)(d) Intent that guidelines and standards be employed as soon as possible and subject to continuing review thereafter.

s. 627.0628, F.S.

Requirements

- Shall be administratively housed in the SBA
- Shall independently exercise its powers and duties
- Shall consist of 11 members
- Shall serve as long as maintain respective offices (members designated in statute)
- Shall serve until end of term of one appointing (appointed members), unless removed earlier for cause
- Shall appoint chair (by SBA)
- Shall serve without compensation (Commission members)
- Shall be reimbursed for per diem and travel expenses (Commission members)

s. 627.0628, F.S.

Requirements

- Shall be no liability in connection with duties.
- Shall consider any actuarial methods, principles, standards, models, or output ranges that have the potential for improving the accuracy of or reliability of the hurricane loss projections used in residential property insurance rate filings.
- Shall, from time to time, adopt findings as to the accuracy or reliability of particular methods, principles, standards, models, or output ranges.
- Shall adopt revisions to previously adopted actuarial methods, principles, standards, models, or output ranges at least annually.

V. Overview of the Content of the Report of Activities

Report of Activities

as of November 1, 20XX

- I. Introduction – Role and Mission
- II. 12 Principles (changes to: #3)
- III. Commission Structure
 - Public Access – defined and limited
 - Commission Meetings to Review Modeler Submissions
 - Commission Meetings to Review Models for Compliance with Standards
- IV. Findings (changes to: Concerning Proprietary Information)
- V. Process for Determining the Acceptability of a Computer Simulation Model (changes)
- VI. On-Site Review (?)

VII. 20XX Standards, Disclosures, and Forms

- General (committees determine requirements)
- Meteorological (committees determine requirements)
- Vulnerability (committees determine requirements)
- Actuarial (committees determine requirements)
- Statistical (committees determine requirements)
- Computer (committees determine requirements)

VIII. Future Inquiries or Investigations

IX. Appendices

Standards:

- Purpose
- Disclosure
- Audit (Proprietary information is reviewed)
- Forms
- Trade Secrets

VI. Review of the Acceptability Process

Overview

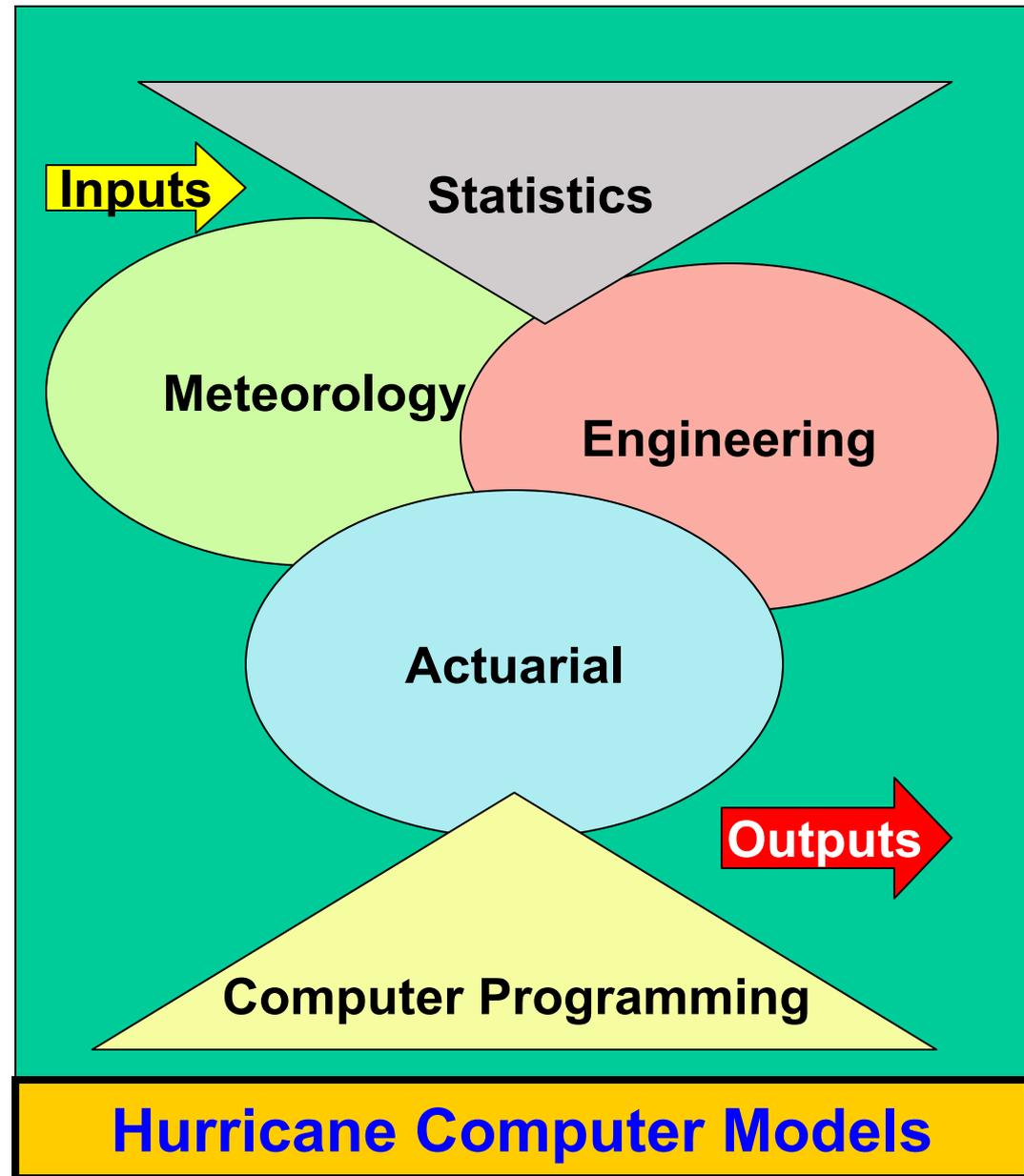
- Report of Activities
- Modeler Submissions
- Commission's Review of Submissions
- Professional Team
- On-Site Review
- Commission's Review of Models

The Professional Team

Expert Evaluation Requires:

Statistician
Meteorologist
Structural Engineer
Actuary
Computer Scientist

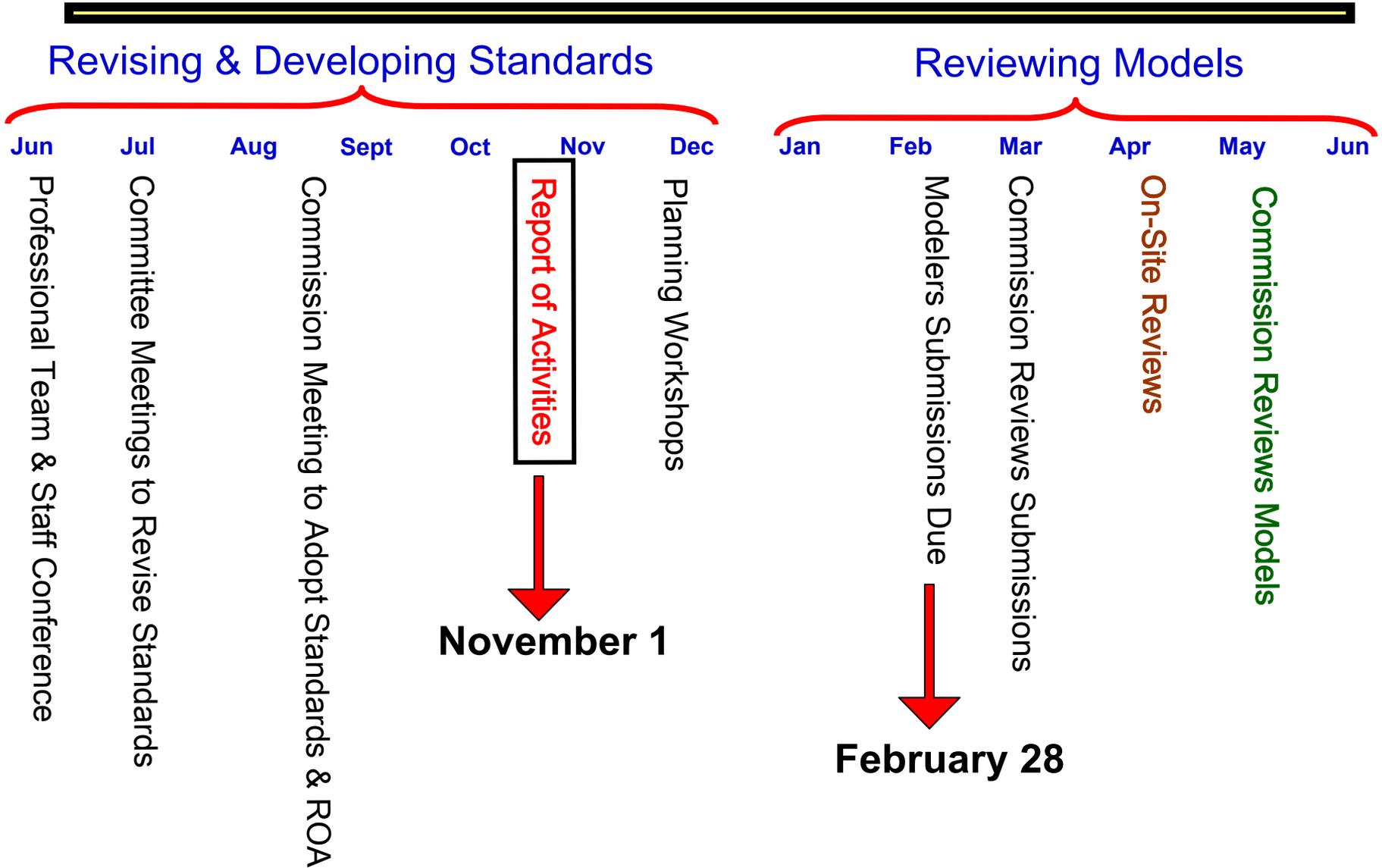
On-Site Review:



Role for the Professional Team

- Specific expertise, experience, and analysis capabilities.
- Labor intensive nature of model review requires a professional team to go on site and carefully scrutinize all aspects of the model.
- Professional Team is needed to keep up with scientific developments and propose standards and revisions to standards.
- Professional Team to conduct research and propose studies to further the mission of the Commission.

The Acceptability Process



VII. Discussion and Proposals for Changes

Discussion: Basic Requirements

- What is required of the Commission?
 - Shall [consider any actuarial methods](#), principles, standards, models, or output ranges that have the potential for improving the accuracy of or reliability of the hurricane loss projections used in residential property insurance rate filings.
 - Shall, from time to time, [adopt findings](#) as to the accuracy or reliability of particular methods, principles, standards, models, or output ranges.
 - Shall [adopt revisions](#) to previously adopted actuarial methods, principles, standards, models, or output ranges [at least annually](#).

Discussion — Current Process

- Current process developed and refined over the last 10 years
- Relies on:
 - Public disclosures (modeler submissions)
 - On-site review of proprietary information by a professional team of experts
- Note:
 - The Commission has always had “access” to proprietary information.
 - What is new is that the Commission has not been able to protect documents containing “trade” secrets nor has it been able to discuss “trade” secrets in a closed meeting.
 - There has been no prohibition regarding Commission members going on-site to review a model. The Professional Team has been used for this purpose due to its greater expertise, experience, and the labor intensive nature of the work.
- Commission ultimately votes to determine if a model is found to be acceptable and has met the adopted standards

Discussion — New Law

- Trade Secrets are protected
 - Documents containing trade secrets do not have to be made available to the public
 - Portions of Commission meetings discussing trade secrets can be closed to the public
- How does this impact the Commission's review process?
 - How is needed information defined and obtained?
 - What should be the Commission's continued reliance on the Professional Team's expertise? What should be the role of the Professional Team?
 - What does the Commission want to see in terms of documents? What? How? Where? When?
 - What does the Commission want to discuss in terms of trade secrets? Oral discussions, discussions of specific documents, or discussion of model results?
 - What is available on-site versus what can be "brought" to the Commission?
 - Is there a need and is it feasible for Commission members to go on-site to review trade secrets? Some or all of the Commission members? To select models or all models? With the professional team or separately?

Considerations

- Role of the Professional Team
- The need for documents
 - What documents?
 - How will the documents be reviewed?
- Submission of Documents containing Trade Secrets
 - Security
 - How long are the documents needed?

VIII. Other Ideas

- EQECAT (6/17/2005 Memo)
 - Ensure that the parts of the process requiring significant modeler effort and expense are truly providing worthwhile review aspects:
 - Remove less useful standards and forms as newer, better ones are added.
 - Minimize the amount of revisions that do not substantially increase the quality of the review process.
 - Require fewer deliveries of hard copies, CDs, and signatures, Intermediate and perhaps initial versions of the submission can be provided by e-mail for review.
 - Require submissions and reviews for only those standards or groups of standards for which there have been significant changes, either to the standards or to the model.
 - Make all or part of the process biennial.
 - At commission meetings to review models, maintain distinct schedules (if not distinct meetings) for model reviews versus other commission business and discussion.

- Bob Ricker (7/12/2005 Memo)
 - Two changes to increase the efficiency of the Commission's review following their adoption of revisions to Standards:
 - 1) If the Commission does not revise any Standard or makes only minor revisions to some Standards, a model would be found acceptable for an additional year upon provision of appropriate certification.
 - 2) If the Commission makes significant changes to any existing Standards and/or adopts new Standards, a model would be found acceptable for an additional year upon provision of all the following:
 - An updated Form A8
 - Certification that the change in loss cost is less than 7% statewide (as provided in Form A8), and less than 15% in any zip code.
 - Certification in each category (General, Meteorological, Vulnerability, Actuarial, Statistical, Computer), that there are no significant changes in their respective area that are likely to impact any response to a standard previously found acceptable.

- **Bob Ricker Memo continued**
 - As part of the Standard revision process the Commission should:
 - 1) Develop and adhere to a method for Cost Benefit Analysis of any new proposed Standard or significant revision to any existing Standard.
 - 2) Determine the degree to which Standards (both existing and proposed) contribute to determining a model's acceptability for ratemaking purposes for personal residential lines of insurance in Florida.
 - Information relating to Standards or portion of Standards that do not function to determine a model's acceptability should be addressed in Planning Workshops.

- **Bob Ricker Memo continued**
 - Once these changes have been made, revise the Commission's timeline so that a determination can be made as early as February

Guidelines for Commission's review to consider:

- 1) Commissioners should have a minimum of one week per model to review model submissions before meeting to discuss and determine on-site reviews
- 2) Commissioners should have a minimum of one week per model to review model submissions after receiving Pro Team reports before meeting to discuss and vote on acceptability.

IX. Conclusions